

BUY

TP: Rs 650 | ▲ 29%

SOMANY CERAMICS

Building Materials

06 February 2025

Good show in a difficult environment

- Operating profit broadly in line in Q3; SOMC EBITDA margin was relatively stable in Q3 due to high GVT sales and Max plant ramp-up
- SOMC expects its volume to grow at high single- to low double-digit rate with 100-150bps improvement in margin for FY26
- Maintain BUY on reasonable valuations; TP cut by 24% to Rs 650 on slow improvement in margin profile

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In-line Q3: SOMC’s tiles sales volume came broadly in line with our estimate (vs +5.0% estimated) for Q3FY25. EBITDA margin was also relatively stable (-11bps QoQ to 8.3% vs 8.5% estimated) in a difficult environment. However, it missed our APAT estimate by 34% due to one-offs (accelerated depreciation on old equipment of Rs 40mn; and higher tax rate of 43.7%). Overall, SOMC’s revenue grew by 5.3% YoY, but EBITDA/APAT fell by 9.4%/51.1% YoY in Q3FY25.

Key highlights: SOMC’s EBITDA margin contracted by 135bps YoY to 8.3% in Q3FY25 driven by gross margin contraction (-74bps YoY to 54.7%) on account of weak retail demand. However, the pace of margin contraction for SOMC (-17bps to 8.3%) is lower compared to Kajaria (KJC; -222bps to 12.8%) over Q1FY25-Q3FY25 due to the rising share of GVT volumes (+200bps) and ramp-up of Max plant (from 36% in Q1FY25 to 51% in Q3FY25). Net debt has gone down slightly from Rs 2.7bn in Sep’24 to Rs 2.5bn in Dec’24.

Guidance: The company expects tiles industry demand to pick up in the near future as many residential/commercial buildings are reaching the near-to-completion stage. Hence, the company expects its volume to grow at high single- to low double-digit rate in FY26. The company expects a slight improvement in its EBITDA margin in Q4FY25 due to the benefit of operating leverage and expects an improvement of 100-150bps in FY26 due to the rising share of value-added products, better utilisation of Max plant (which is expected to become profitable from Q2FY26) and divestment of loss-making subsidiaries. The retail share is expected to go down from 78-79% at present to 74-75% due to weak demand.

Maintain BUY; TP cut by 24% to Rs 650: SOMC’s EPS is projected to grow at a moderate pace of 7.9% CAGR over FY24-FY27E. However, we maintain our BUY rating on the stock due to reasonable valuations (trades at 23.8x on 1Y forward P/E vs. 5Y average of 29.9x). We cut our TP to Rs 650 (Rs 850 earlier) due to the downward revision of our EPS estimates (-37%/-35%/-25% for FY25E/FY26E/FY27E) on account of slower-than-expected improvement in margin profile. Our target P/E remains unchanged at 25x on Dec’26 estimate (Sep’26 earlier).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SOMC IN/Rs 505
Market cap	US\$ 236.6mn
Free float	45%
3M ADV	US\$ 0.1mn
52wk high/low	Rs 873/Rs 472
Promoter/FPI/DII	55%/2%/24%

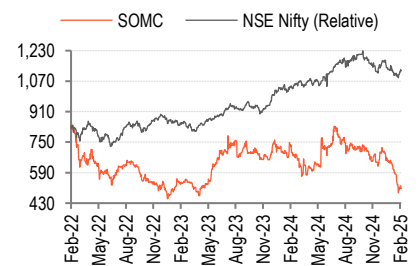
Source: NSE | Price as of 6 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	25,914	26,226	28,486
EBITDA (Rs mn)	2,544	2,143	2,510
Adj. net profit (Rs mn)	991	553	898
Adj. EPS (Rs)	24.2	13.5	21.9
Consensus EPS (Rs)	24.2	24.1	34.1
Adj. ROAE (%)	11.5	6.5	9.8
Adj. P/E (x)	20.9	37.5	23.1
EV/EBITDA (x)	7.0	8.4	7.4
Adj. EPS growth (%)	38.1	(44.2)	62.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance: Consolidated

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)	BOBCAPS Q3FY25E	Variance (%)
Total operating income	6,449	6,121	5.3	6,663	(3.2)	18,898	18,538	1.9	6,169	4.5
Raw-Material expense	2,921	2,728	7.1	3,228	(9.5)	8,633	8,419	2.5		
Gross Profit	3,528	3,394	3.9	3,436	2.7	10,265	10,120	1.4		
Employee expense	894	794	12.6	891	0.3	2,653	2,377	11.6		
Energy costs	1,307	1,252	4.3	1,234	5.9	3,817	3,820	(0.1)		
Other expense	792	757	4.6	750	5.6	2,210	2,185	1.1		
EBITDA	535	590	(9.4)	560	(4.5)	1,584	1,738	(8.8)	526	1.7
D&A	228	188	21.3	192	19.1	612	532	14.9		
EBIT	306	402	(23.8)	368	(16.8)	973	1,205	(19.3)		
Interest cost	133	109	22.0	135	(1.6)	403	330	21.9		
Non-operating expense/(income)	2	(41)	(104.4)	(13)	(113.6)	(32)	(37)	(12.7)		
PBT	172	334	(48.6)	247	(30.3)	603	912	(33.9)		
Tax	75	100	(25.1)	73	2.5	210	257	(18.4)		
Reported PAT	97	234	(58.7)	173	(44.2)	393	655	(40.0)		
Adjusted PAT	104	213	(51.1)	171	(39.3)	398	697	(42.8)	157	(33.8)
As % of net revenues			(bps)		(bps)			(bps)		
Gross margin	54.7	55.4	(74)	51.6	315	54.3	54.6	(27)		
Employee cost	13.9	13.0	89	13.4	49	14.0	12.8	122		
Energy cost	20.3	20.5	(20)	18.5	174	20.2	20.6	(41)		
Other cost	12.3	12.4	(8)	11.3	103	11.7	11.8	(9)		
EBITDA margin	8.3	9.6	(135)	8.4	(11)	8.4	9.4	(99)		
Tax rate	43.7	30.0	1372	29.7	1401	34.8	28.2	663		
APAT margin	1.6	3.5	(186)	2.6	(96)	2.1	3.8	(165)		

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Tiles revenue (Rs mn)								
- Own	1,698	1,857	(8.5)	1,851	(8.2)	5,275	6,054	(12.9)
- JV	2,000	1,999	0.1	2,247	(11.0)	6,283	5,719	9.9
- Outsourced	1,761	1,419	24.0	1,584	11.2	4,554	4,338	5.0
Total	5,459	5,275	3.5	5,681	(3.9)	16,112	16,110	0.0
Non-tiles revenue (Rs mn)								
Bathware	710	655	8.5	701	1.3	2,017	1,869	7.9
Adhesives	231	158	46.0	233	(0.9)	645	476	35.5
Total	941	813	15.8	934	0.8	2,662	2,345	13.5
Tiles sales volume (MSM)								
- Own	5.6	5.8	(4.3)	6.0	(7.2)	17.1	18.6	(8.3)
- JV	5.6	6.1	(9.0)	6.6	(15.0)	18.3	17.2	6.2
- Outsourced	5.9	4.4	34.7	5.3	13.1	15.1	13.6	11.3
Total	17.1	16.4	4.5	17.8	(4.1)	50.4	49.4	2.1
Tiles Realisation (Rs/sqm)								
- Own	306	320	(4.4)	309	(1.1)	309	325	(4.9)
- JV	358	326	9.9	341	4.8	344	332	3.5
- Outsourced	296	322	(7.9)	302	(1.7)	302	320	(5.6)
Blended realisation	320	323	(0.9)	319	0.2	319	326	(2.0)
Blended EBITDA per unit (Rs/sqm)	31.3	36.1	(13.3)	31.4	(0.5)	31.4	35.2	(10.7)

Source: Company, BOBCAPS Research

Earnings call highlights

Demand scenario: Domestic tile demand was weak in Q3FY25 due to a muted demand environment in the retail segment and stiff competition from Morbi players on account of lower exports. The company expects demand to pick up in the near future as many residential/commercial buildings are reaching the near-to-completion stage.

Guidance: SOMC expects its volume to grow at a high single-digit to low double-digit rate in FY26. Expects slight improvement in its EBITDA margin in Q4FY25 due to benefit of operating leverage and expects an improvement of 100-150bps in FY26 due to rising share of value-added products, better utilisation of Max plant (which is expected to become profitable from Q2FY26) and divestment of loss-making subsidiaries.

Tiles segment: revenue grew by 3.5% YoY in Q3FY25 driven by higher volumes (+4.5% YoY; 5Y CAGR: +5.1%). Own/JV tiles sales volume was down 6.7% YoY whereas outsourced tiles volume was up 34.7% YoY in Q3FY25. Blended tiles realisation was relatively flat (+0.2% QoQ) in Q3FY25.

Non-tiles segment: revenue grew by 15.8% YoY in Q3FY25 driven by both bathware (+8.5%) as well as adhesives (+46.0%).

Margin: SOMC's EBITDA margin contracted by 135bps YoY to 8.3% in Q3FY25 driven by gross margin contraction (-74bps YoY to 54.7%) on account of weak demand in the retail segment). Natural gas prices were up by 4% QoQ in Q3FY25.

Product mix: GVT share was at 38%; Ceramic at 34%; PVT at 28% for Q3FY25. The company plans to increase GVT share to 40%+ in the near term.

Sales mix: The share of government (at 11-12%)/exports (2-3%) sales is expected to remain stable and private projects sales is expected to increase from 7-8% to 10% in the near term. Going ahead, the retail share is expected to go down from 78-79% to 74-75%.

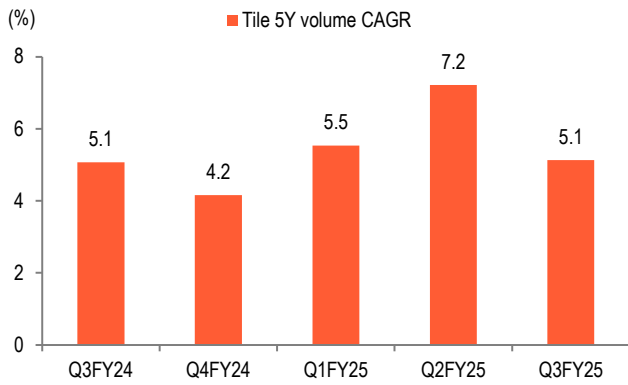
Max plant: The plant capacity utilisation improved from 36% in Q2FY25 to 51% in Q3FY25. Management believes that the plant will turn profitable by Q2FY26. The plant is expected to clock a revenue of Rs 2.5bn on an annual basis at optimum capacity utilisation.

Brand spend as a proportion of sales was at 2.5% in Q3FY25.

Capex: SOMC plans to acquire a 52% stake in Dura Build Care (DCBPL) at a cost of Rs 105mn, which is engaged in the construction chemical business. DCBPL has generated revenue of Rs 151mn in FY24 (vs Rs 160mn/Rs 137mn in FY23/FY22). The company plans to increase its stake to 100% in the next 3-5 years. There are no major capex plans for FY26. However, a small expansion in the sanitaryware and fittings segment is expected in the next 12 months.

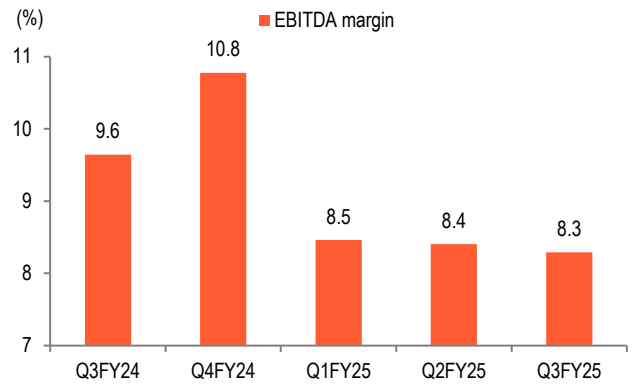
Net debt: has gone down from Rs 2.67bn in Sep'24 to Rs 2.5bn in Dec'24.

Fig 3 – SOMC’s tile volumes grew by 4.5% YoY (5Y CAGR: +5.1%) in Q3FY25



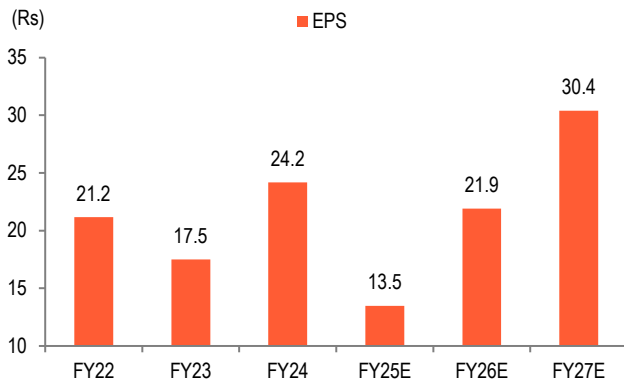
Source: Company, BOBCAPS Research

Fig 4 – EBITDA margin was down 135bps YoY to 8.3% in Q3FY25 due to weak demand in the retail segment



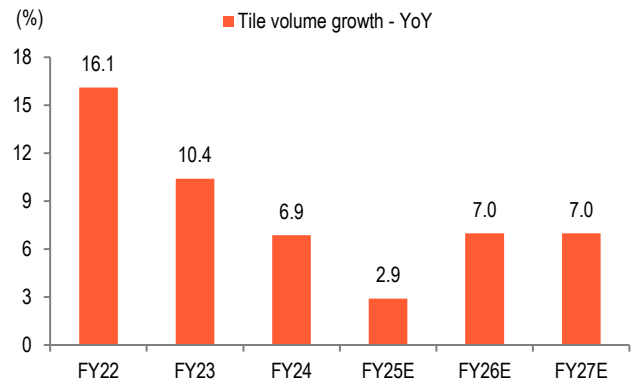
Source: Company, BOBCAPS Research

Fig 5 – EPS projected to grow at a moderate pace of 7.9% CAGR over FY24-FY27E...



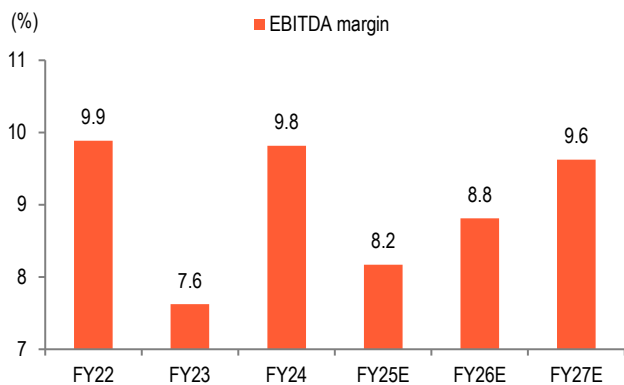
Source: Company, BOBCAPS Research

Fig 6 – ... on expectations of reasonable volume growth assumption of 5.6% CAGR over FY24-FY27E...



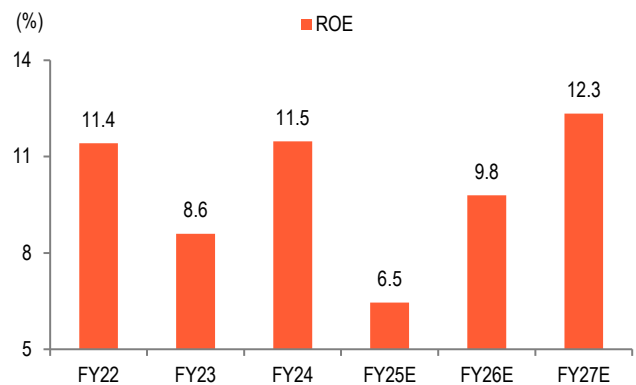
Source: Company, BOBCAPS Research

Fig 7 – ... and gradual improvement in EBITDA margin due to better mix and operating leverage



Source: Company, BOBCAPS Research

Fig 8 – ROE projected to improve slightly on improved margin and completion of major growth capex



Source: Company, BOBCAPS Research

Valuation methodology

We expect SOMC's EPS to grow at a moderate pace of 7.9% CAGR over FY24-FY27E. However, we maintain our BUY rating on the stock due to reasonable valuations (trades at 23.8x on 1Y forward P/E vs. 5Y average of 29.9x).

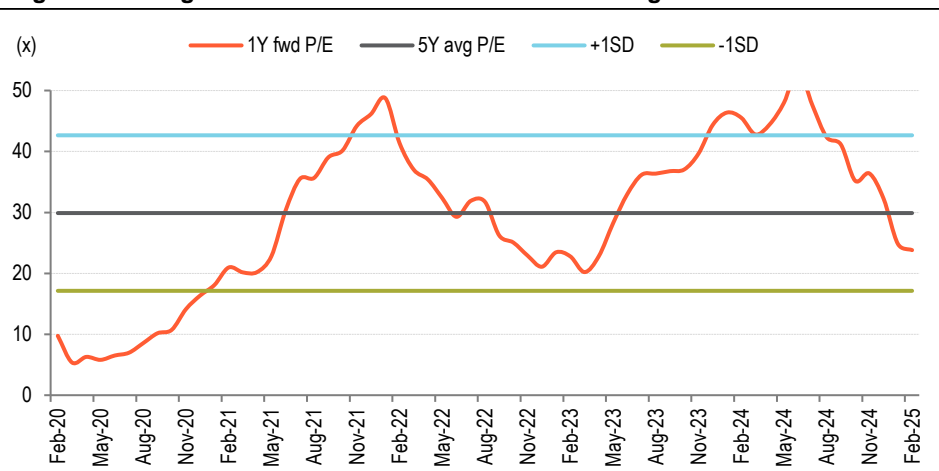
We cut our TP to Rs 650 (Rs 850 earlier) due to the downward revision of our EPS estimates (-37%/-35%/-25% for FY25E/FY26E/ FY27E) on account of slower-than-expected improvement in margin profile. Our target P/E remains unchanged at 25x on Dec'26 estimate (Sep'26 earlier).

Fig 9 – Revised estimates

Consolidated (Rs bn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Total operating income	26.2	28.5	31.2	26.4	29.5	32.9	(0.7)	(3.5)	(5.2)
EBITDA	2.1	2.5	3.0	2.5	3.1	3.5	(12.8)	(19.3)	(14.6)
EBITDA Margin	8.2	8.8	9.6	9.3	10.5	10.7	(114.0)	(172)	(106)
Adjusted PAT	0.6	0.9	1.2	0.9	1.4	1.7	(36.9)	(35.0)	(25.4)
EPS	13.5	21.9	30.4	21.4	33.7	40.7	(36.9)	(35.0)	(25.4)

Source: BOBCAPS Research, Company

Fig 10 – Trading at 23.8x on 1Y forward P/E vs. 5Y average P/E of 29.9x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

(%)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Tile Volume Growth	16.1	10.4	6.9	2.9	7.0	7.0
Tile Realisation Growth	10.0	6.0	(3.2)	(1.8)	0.6	1.2
Tile Revenue Growth	27.7	17.0	3.5	1.0	7.6	8.3
Non-Tile Revenue Growth	23.4	23.8	19.5	13.6	14.4	16.2
Non-Tile Revenue Share	10.9	11.5	13.0	14.4	15.2	16.1

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- weak tiles exports from India on a sustained basis,
- poor offtake of the recently-launched large slab GVT tiles, and
- below-expected recovery in operating margin.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	24,785	25,914	26,226	28,486	31,198
EBITDA	1,889	2,544	2,143	2,510	3,003
Depreciation	679	725	797	799	826
EBIT	1,211	1,819	1,346	1,712	2,176
Net interest inc./(exp.)	(404)	(465)	(535)	(531)	(531)
Other inc./(exp.)	145	106	62	40	40
Exceptional items	2	11	0	0	0
EBT	950	1,449	873	1,221	1,686
Income taxes	259	434	304	307	424
Extraordinary items	22	21	20	0	0
Min. int./Inc. from assoc.	46	(25)	(9)	(15)	(15)
Reported net profit	715	969	540	898	1,246
Adjustments	28	22	13	0	0
Adjusted net profit	743	991	553	898	1,246

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	3,777	5,593	5,691	6,181	6,770
Other current liabilities	1,277	1,288	1,288	1,288	1,288
Provisions	52	48	49	53	58
Debt funds	4,884	3,351	3,364	3,457	3,569
Other liabilities	1,176	1,229	1,229	1,229	1,229
Equity capital	85	82	82	82	82
Reserves & surplus	7,785	7,119	7,589	8,373	9,461
Shareholders' fund	8,945	8,330	8,790	9,559	10,632
Total liab. and equities	20,111	19,838	20,410	21,768	23,546
Cash and cash eq.	1,864	855	1,324	1,409	1,724
Accounts receivables	2,683	3,372	3,413	3,707	4,060
Inventories	3,915	3,466	3,715	3,947	4,328
Other current assets	532	522	531	577	632
Investments	0	0	0	0	0
Net fixed assets	9,647	10,750	10,554	10,255	9,929
CWIP	473	96	96	1,096	2,096
Intangible assets	504	458	458	458	458
Deferred tax assets, net	84	81	81	81	81
Other assets	409	238	238	238	238
Total assets	20,111	19,838	20,410	21,768	23,546

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	1,520	3,929	1,638	2,127	2,383
Capital expenditures	(1,515)	(1,406)	(600)	(1,500)	(1,500)
Change in investments	0	0	0	0	0
Other investing cash flows	121	74	42	40	40
Cash flow from investing	(1,394)	(1,332)	(558)	(1,460)	(1,460)
Equities issued/Others	0	(3)	0	0	0
Debt raised/repaid	118	(1,533)	13	93	112
Interest expenses	(404)	(465)	(535)	(531)	(531)
Dividends paid	(132)	(126)	(70)	(114)	(158)
Other financing cash flows	70	(1,481)	(18)	(30)	(30)
Cash flow from financing	(348)	(3,607)	(611)	(582)	(608)
Chg in cash & cash eq.	(222)	(1,009)	470	85	315
Closing cash & cash eq.	1,864	855	1,324	1,409	1,724

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	16.8	23.6	13.2	21.9	30.4
Adjusted EPS	17.5	24.2	13.5	21.9	30.4
Dividend per share	3.0	3.0	1.7	2.8	3.9
Book value per share	185.4	175.6	187.1	206.2	232.8

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	0.7	0.7	0.7	0.6	0.6
EV/EBITDA	9.8	7.0	8.4	7.4	6.2
Adjusted P/E	28.9	20.9	37.5	23.1	16.6
P/BV	2.7	2.9	2.7	2.5	2.2

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	78.2	68.4	63.3	73.6	73.9
Interest burden (PBT/EBIT)	78.5	79.7	64.9	71.3	77.4
EBIT margin (EBIT/Revenue)	4.9	7.0	5.1	6.0	7.0
Asset turnover (Rev./Avg TA)	123.2	130.6	128.5	130.9	132.5
Leverage (Avg TA/Avg Equity)	2.3	2.3	2.4	2.4	2.3
Adjusted ROAE	8.6	11.5	6.5	9.8	12.3

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	18.3	4.6	1.2	8.6	9.5
EBITDA	(8.8)	34.6	(15.8)	17.2	19.6
Adjusted EPS	(17.3)	38.1	(44.2)	62.5	38.7
Profitability & Return ratios (%)					
EBITDA margin	7.6	9.8	8.2	8.8	9.6
EBIT margin	4.9	7.0	5.1	6.0	7.0
Adjusted profit margin	3.0	3.8	2.1	3.2	4.0
Adjusted ROAE	8.6	11.5	6.5	9.8	12.3
ROCE	9.8	16.5	11.6	13.5	15.6
Working capital days (days)					
Receivables	40	47	47	47	47
Inventory	58	49	52	51	51
Payables	56	79	79	79	79
Ratios (x)					
Gross asset turnover	2.3	2.0	1.9	2.0	2.1
Current ratio	1.1	1.0	1.1	1.1	1.1
Net interest coverage ratio	3.0	3.9	2.5	3.2	4.1
Adjusted debt/equity	0.3	0.3	0.2	0.2	0.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

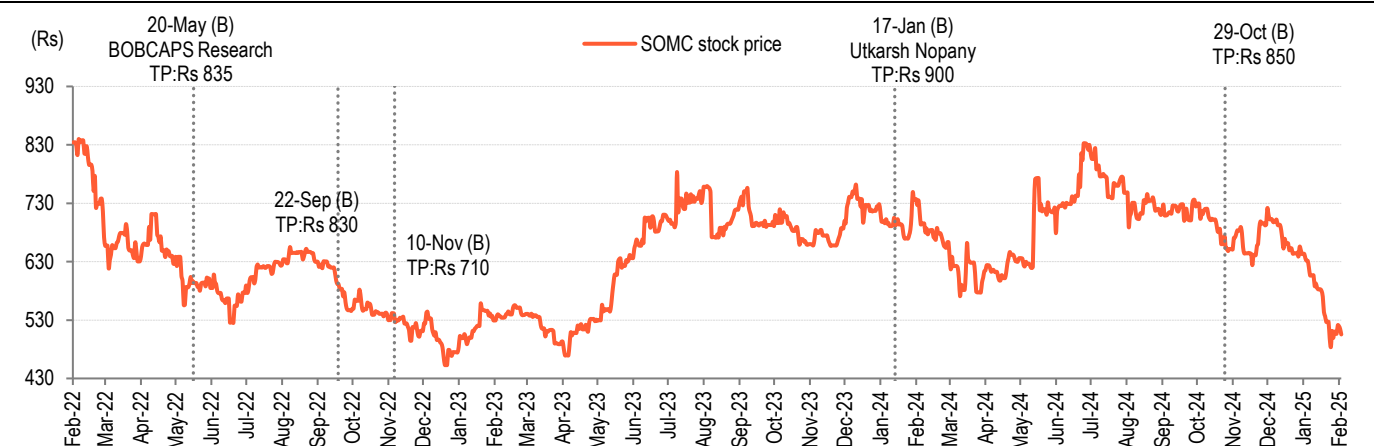
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SOMANY CERAMICS (SOMC IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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